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CONTENTS

HIGHLIGHTS	1
MESSAGE TO STOCKHOLDERS	2
SPACE PROGRAMS	4
SST DEVELOPMENTS	7
COMMERCIAL AIRCRAFT	9
FINANCIAL REVIEW	12
TEN YEAR COMPARATIVE FINANCIAL DATA	18
FINANCIAL STATEMENTS	20
ACCOUNTANTS' REPORT	24
MILITARY PRODUCTS	24
INTERNATIONAL OPERATIONS	28
BOEING PEOPLE	29
DIRECTORS AND OFFICERS	31

COVER: Moon-bound Apollo/Saturn is lifted off the pad by its Boeing-built first stage.



727 trijet serves airlines around the world as most successful airliner the company has ever built.

BOEING ANNUAL REPORT 1968



HIGHLIGHTS

	1968	1967
Sales	\$3,273,980,000	\$2,879,686,000
Net earnings	82,972,000	83,938,000
Dividends paid	25,961,000	24,649,000
Net earnings per share*	\$3.84	\$4.10
Dividends paid per share	1.20	1.20
Percent net earnings to sales	2.5%	2.9%
Shares outstanding at year end	21,647,363	21,597,356
Book value per share	\$37.43	\$34.80
Salaries and wages	\$1,411,394,000	\$1,305,137,000
Average number of employees	142,400	142,700
Additions to property, plant and equipment \$	120,500,000	\$ 246,500,000
Depreciation and amortization of property, plant and equipment	93,836,000	72,315,000
Backlog	\$5,176,300,000	\$5,892,900,000

*Based on the average number of shares outstanding during each year.

Annual meeting of Boeing stockholders will be held at the offices of the company, Seattle, Washington, on April 28, 1969. Formal notice of the meeting, proxy statement and form of proxy will be sent to stockholders shortly before April 1.

MESSAGE TO STOCKHOLDERS

To the Stockholders:

In 1968, sales of \$3.274 billion were the highest in the company's history. Net earnings of \$83 million, however, were slightly below the record earnings of \$83.9 million achieved in 1967. Earnings per share of \$3.84 represented a 2.5 percent net profit on sales compared to 1967 figures of \$4.10 per share and 2.9 percent on sales. The proportionately larger reduction in share earnings is attributable to the fact that average shares outstanding during 1968 were at a level above the average shares outstanding in 1967. The lower percentage of net profit on sales is attributable to continued heavy charges against earnings on the 747 and 737 jet transport programs, lower earnings on government programs and the new 10 percent surcharge on federal income taxes.

A number of milestones reached during 1968 deserve particular mention. The company participated importantly in the remarkable success of the Apollo 8 flight in December, which earned a place in history. The company's role in the program included the building of the first stage of the Saturn 5 launch vehicle which started the flight on its way; integration of all three stages; providing launch support, and the assignment received in 1967 for assisting the National Aeronautics and Space Administration in technical integration and

evaluation of the complete launch vehicle and the Apollo spacecraft.

Another event that attracted worldwide attention was the roll-out from the factory of the first 747 superjet aircraft. People came from many parts of the world to watch this impressive aircraft emerge from the huge Everett plant on September 30. The airplane made its first flight on February 9, 1969, from Paine Field at Everett. Take-off used only half of the 9,000-foot runway and astonished onlookers by its quietness. Pilots reported the airplane performed beautifully during first maneuvers and operated with exceptional smoothness even in turbulent air.

After accumulating 12½ hours air time in seven flights from Paine Field, the 747 shifted to Boeing Field in Seattle for the intensive flight test program which will use five airplanes to meet a schedule calling for deliveries of the first 747s to airlines in late 1969.

After extensive efforts, the company concluded that the present state of the art would not permit a commercial supersonic transport design with variable wings which would achieve the range, with payload, that was required by the airlines for the aircraft to be economically successful. Accordingly the company requested, and received, an extension of time before sub-



President T. A. Wilson (seated) and Board Chairman William M. Allen.

mitting the final design for approval by the Federal Aviation Administration. The company now has submitted to the FAA a new design, substantially different from any heretofore considered for the commercial SST, which will be capable of carrying 300 passengers 4,000 miles at approximately 1,800 miles an hour. It is believed the prototype airplanes will demonstrate that the production models will have the characteristics which will make them successful for the airlines. It is expected that authorization to proceed with the construction of the two prototype aircraft will be given following FAA evaluation of the design.

The 707, oldest of our commercial jets, has been in use more than ten years and is continuing to provide excellent service. Both the standard 727 and the longer-bodied version (727-200) are very popular aircraft, as is the twin-engined 737, our newest commercial model now in service. Future demands for the 189-passenger 707 Intercontinental models will be affected by the 747 and the later wide-bodied air-busses, but we expect a continuing demand for 727s for some years and an even longer demand for 737s.

Deliveries of 707s and 727s in 1969 will be below those in the last year, and charges against earnings on new commercial jet programs will continue at a relatively high

level. Hence, earnings in 1969 will be lower than in 1968.

The company has a continuing program of improvement for all its models with greater emphasis, of course, on the newer versions.

The year 1968 was difficult for the airline industry. Efforts of the government to discourage foreign travel, with certain other factors, held scheduled passenger traffic on the North Atlantic to a disappointing 5.4 percent increase, as contrasted to predictions of a 17 percent rise. Congestion on some of our most important airports and in adjacent air space adversely affected the overall profitability of the airlines and raised serious questions as to the rate of growth which could be achieved in passenger miles. It is hoped that no further efforts to restrict foreign travel will be made and that solutions will be found for airways and airport problems. Boeing is active in the search for solutions.

Several questions concerning airline route awards and rate structures remained unanswered in early 1969. All these factors, as well as the magnitude of necessary financing, affected the demand for new airline equipment.

It is a continuing company policy to exert a large effort in providing military equipment and systems required by our government to preserve national security. Clear evidence of this policy was demon-

strated in 1968 by activities in the missile, aircraft and helicopter fields. In addition, the company created a Military Airplane Systems Division. A number of our most experienced and competent people have been assigned to it, and we believe the company will be in a strong position for new military aircraft systems programs.

1969 will be critical for The Boeing Company in many ways. A moon landing probably will be attempted in the Apollo program. The 747 is engaging in an extensive flight test program designed to secure certification for passenger use before the end of the year. The matter of continued support by our government for the SST will come before the President and the Congress. The company is engaged in a number of competitions in the military and space fields. As the 747 program advances, new commercial programs on which we have been working will be considered for future implementation. All of these matters are of extreme importance.

We face the future with confidence, however, believing as we do in the strength and capability of the Boeing organization, in the outstanding quality of our products and programs and in the growth possibilities and attractive opportunities of the market areas in which the company operates.

P. A. Wilson
President

William M. Allen
Chairman of the Board

February 24, 1969

SPACE PROGRAMS

More than ever before, Boeing in 1968 was deeply involved with the dramatic national program to land men on the moon. More than 10,000 employees at seven principal locations were engaged in the effort which fascinated the world as three astronauts circled the moon in December.

The culminating moon flight was the fourth in a carefully planned series during the year. All the preparation proved its value when the Apollo 8 mission on December 21 launched Frank Borman, James Lovell and William Anders toward the moon—the first men to leave Earth's primary gravitational influence, first ever to orbit another celestial body.

Apollo 8 was a perfect mission from the liftoff at Cape Kennedy to the safe splash-down in the Pacific eight days later. In the process, the huge Saturn 5 booster hurled the manned spacecraft on a course selected with incredible accuracy: a vehicle traveling at 24,171 miles per hour (the fastest man ever has traveled) aimed to intersect with the gravitational field of a moon 233,000 miles away and spinning around the earth at 2,200 miles an hour. The aim was flawless; the spacecraft was injected into the first of 10 lunar orbits; its service propulsion engine fired to stabilize those orbits at 70 miles from the moon's surface and again to free the vehicle



Vastness of space as depicted by this picture of earth is realm of many new business projects being actively pursued by The Boeing Company.

from the moon's gravity and start it back to Earth.

Boeing's connection with the National Aeronautics and Space Administration project began with the building of the first stage of the booster at New Orleans and included both operational and surveillance responsibilities throughout the Apollo firing. The company continues to assist NASA as Apollo technical integration and evaluation contractor—the so-called TIE program. This work is accomplished at Washington, D.C.; Houston, Texas; Cape Kennedy, Florida, and Huntsville, Alabama.

Headquarters of the new Southeast Division is at Houston; the TIE program management at Washington; the Atlantic Test Center at Cape Kennedy.

Boeing-Huntsville provides systems engineering, vehicle integration, post-flight evaluation and analysis, and computer simulation of the moon rocket. The Huntsville simulation center joins digital computers, which have large memory banks, to very high speed analog computers in order to obtain the advantages of both. At year's end, Boeing teams using this versatile hybrid computer installation

were studying to determine whether astronauts could be given more control of their boosters and vehicles during the initial stages of space missions.

Considerable effort was given to studies on uses of the Saturn 5 in addition to the lunar-landing mission. One concept funded for further study is the "Intermediate 20", termed Saturn 5, Jr., by Boeing engineers. Under this concept, the Saturn 5 could be custom tailored for specific payload weights by using only one of the upper stages with the first stage and by varying the number of engines on



Activities of the Aerospace Group embracing space and missile projects are directed from the Space Center complex shown above at Kent, Wash.

the stages employed. Other future-program studies include advanced launch systems.

Boeing is a competitor for contracts in the Viking program, a NASA project to soft-land scientific payloads on the planet Mars in 1973. Mission objectives place particular emphasis on providing information relevant to life on the planet. Boeing will head a strong industrial team including the General Electric Company and Hughes Aircraft Company. NASA is expected to ask for competitive proposals on Viking during the first

quarter of 1969 and to select the winning team later this year.

In January, 1968 the last of the Boeing-built Lunar Orbiter spacecraft was crashed deliberately on the moon's surface to eliminate any possibility of telemetry interference with later moon missions. All of the Orbiters performed successfully, including photographing of potential Apollo landing spots.

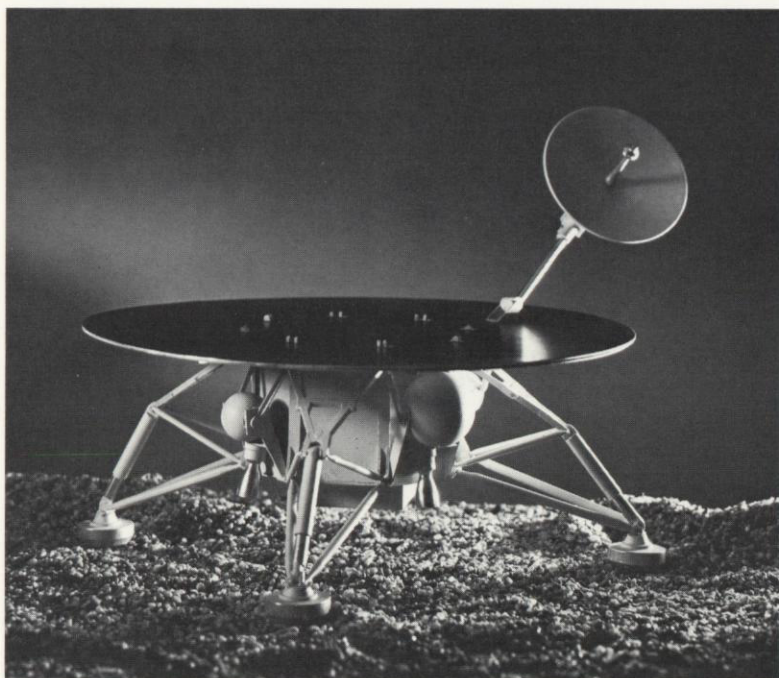
The Orbiters also provided new information about the moon's gravity field. Researchers determined that the Orbiter's velocity increased by about one mile an hour

whenever it passed over one of the five lunar seas on the moon's front face. This was attributed to mass concentrations of dense material, possibly 30 miles beneath the lunar crust. This new scientific information also made possible more precise tracking and orbital predictions for the Apollo flights.

Another Boeing product, the Burner II upper-stage (a small unmanned space device suitable for guiding experimental satellites into orbit after launch by any of several boosters) was launched on three missions during 1968.

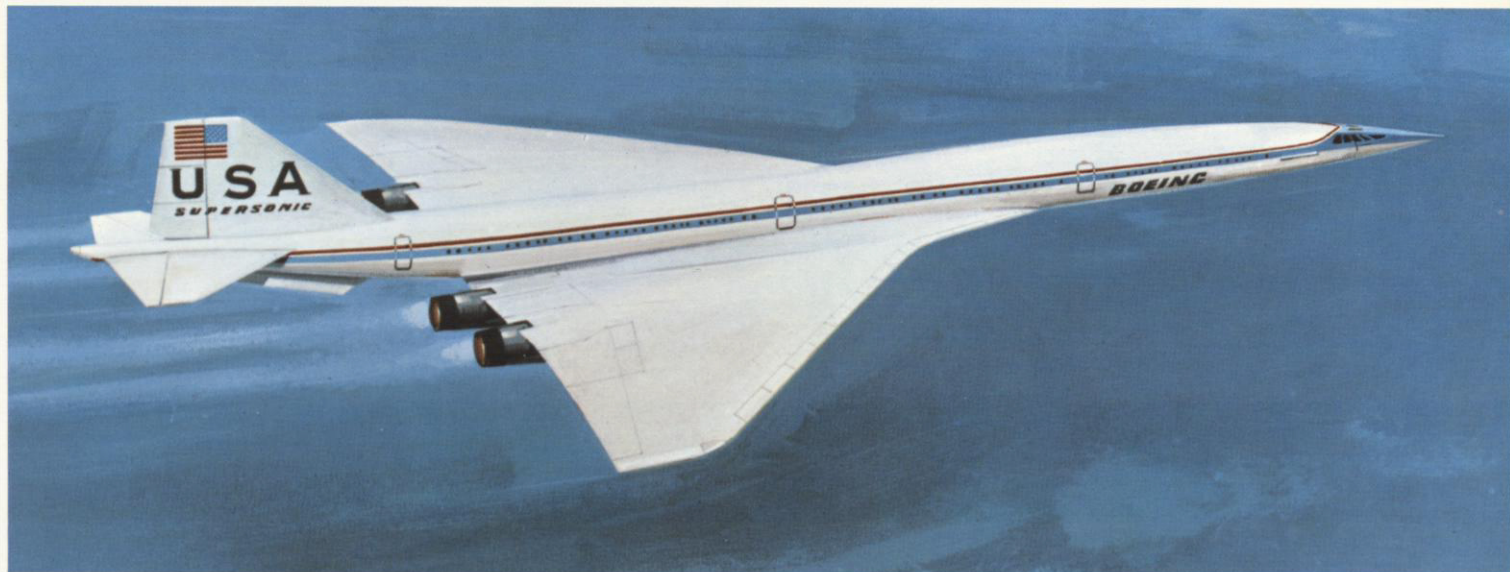
Boeing builds Burner II for the Air Force. Because of its low cost and versatility, the device is a contender for use on a majority of the launch vehicle combinations being considered for Earth orbital, lunar and interplanetary missions during the 1970-75 time period. Through 1968, the Burner II has been launched on eight missions, seven of them successful.

Late in the year the Aerospace Group was restructured into a Missile Division, an Aerospace Systems Division and a Southeast Division. In addition, three group branches were formed. They are an Advanced Surface Missile Systems Branch, a Spacecraft Branch and a Marine Branch. Purpose of the reorganization is better to serve present customers, reduce costs and aggressively seek new business in several fields.



This is the company's concept of a vehicle capable of making a soft landing on Mars and reporting on the Martian surface features.

SST DEVELOPMENTS



Boeing's proposal for the U.S. Supersonic Transport would carry 300 passengers at 1800 miles per hour.

A complete design for the new American supersonic transport has been submitted by the company to the Federal Aviation Administration (FAA) and authorization to proceed with construction of two prototypes is expected.

The new Boeing design calls for an airplane constructed principally of titanium, with a wing configuration and high lift devices enabling it to operate subsonically for flights over populated areas as well as at supersonic speeds on trans-oceanic trip segments. Range, payload and operating costs should make the production airplanes economically successful for the airlines.

Under the proposed program, construction of two prototypes will begin immediately after authorization to proceed is received, with the

goal of first flight in 1972, and the possibility that production airplanes can be in service in 1976.

The company initiated a complete re-study of all SST design possibilities early in 1968 and requested FAA permission to delay submission of its final designs until these studies could be completed.

After exhaustive investigation and tests, it was concluded that the present state of the art would not permit construction of an SST with variable geometry wings capable of achieving the objectives of the program: an economically viable aircraft with the range and payload required by the airlines. The new design meets these requirements.

The airplane proposed is much larger than supersonic aircraft being constructed abroad and will operate approximately 400 miles an

hour faster than either the Russian or British-French aircraft.

Construction of new facilities to be used in building the prototypes was underway at the Developmental Center in Seattle. A 65,000-square-foot hydraulic components and control development building was completed. It will house a flight deck simulator and the largest airplane control development mockup ever built.

Construction began on a 54,000-square-foot extension to the high bay of the building in which prototypes will be assembled.

The company plans to subcontract approximately 60 percent, by weight, of the SST. During 1968, subcontractors provided body panels, engine-inlet parts, airframe skin sections and tail components for testing by Boeing.



Pictured above and on the following pages are insignias of 84 customers purchasing Boeing jets.

COMMERCIAL AIRCRAFT



ALASKA



PAN AMERICAN



KUWAIT

On October 26, 1968, the anniversary of the first American commercial jet transport revenue flight was observed. On the same date 10 years before, Pan American World Airway's first 707 transatlantic flight departed from New York for Paris with 111 passengers aboard.

At that time, Boeing had sold 178 jetliners, but the airlines of the world were still dominated by propeller-driven aircraft. By the end of 1968, the total number of Boeing jetliner orders announced since 1955 approached 2,000, including 161 of the 747 superjets. More than 1,530 Boeing jetliners had been delivered, and half the jet airliners in service in the non-communist world had been built by the company.

In 1968 alone, additional orders for 169 Boeing jetliners were placed by 42 airlines including 13 new customers. Deliveries totaled 376, thirteen less than originally had been projected, with 46 going to new customers.

A surge in sales occurred immediately after the beginning of 1969. Sabena (Belgian) Airlines announced the purchase of two 747s, Western Airlines took three and Pan American World Airways exercised its options for eight. By February 24, orders for five additional 707s and twenty-eight 727s had been received, bringing total announced orders for Boeing jet-

liners above the 2,000 mark.

Announced and unannounced orders by February 9, 1969, totaled one hundred and ninety-six for the 747 model, eight hundred and thirty-seven for the 707/720s, eight hundred and six for the 727s and two hundred and forty-six for the 737s. These figures include some orders which are cancellable but believed to be firm. The one hundred and ninety-six total sales before the first flight of the 747 represented commitments by twenty-eight announced purchasers and three who had not been announced. This was the largest commitment in advance of flight for any Boeing commercial jetliner ever built.

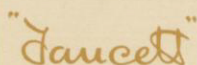
Landmark of the year 1968 was the rollout late in September of the first 747 from the Everett, Washington, plant. The 747 made its initial flight February 9, 1969.

Other production highlights included delivery of 114 long-bodied Model 727-200s and the establishment of a one-month record in July by delivery of 39 commercial airliners. Seven commercial jetliners were delivered on a single day.

After temporary delays late in 1967, the company reached the peak production rate of 14 Model 737s per month in record time—only 20 months after the initial rollout. By year end 109 had been delivered to 14 customers. They were serving 182 cities in 16 countries.



AIRLIFT



FAUCETT



WARDAIR

Marketing efforts were furthered during 1968 by three extensive 737 demonstration tours. The first logged 14,000 miles throughout the United States and Canada, the second logged 20,000 miles while visiting Central and South America. The third tour covered 22,000 miles in demonstrating to some 30 major U.S. corporations the business jet version of the 737—a new model introduced in 1968.

In late November the company announced that it was offering a new longer-range 747 capable of carrying greater payloads. Designated the 747B, the new model, second member of the 747 family, will have the same dimensions as the 747 now in production (the largest commercial airplane ever built). Its gross weight, however, will be 775,000 pounds compared to the 710,000 pounds gross weight of the 747 now in production. The 747B will be available as a passenger liner, as a freighter and in a convertible version capable of being changed from cargo plane to passenger liner configuration in a few hours. Thirty-three orders for 747Bs were among the one hundred and ninety-six on hand by February 9. Eleven airlines have signed for this model.

Despite the fact that air cargo business has not developed as rapidly as was anticipated several years ago, the company continues

to have faith in its future and believes the 747-B will be an outstanding freight airplane.

Design studies are continuing on advanced technology airplanes smaller than the so-called air-buses. While no go-ahead on this program has been given, the designs as envisioned have wide passenger cabins, versatility and range, improved operating costs and low sound levels. Studies also continue on developments of airliners now in production. Development studies of the 727, for instance, consider such advances as higher gross weight, wing and body extensions and advanced power plants. New interior designs for the 727 are being shown to airlines. These include overhead stowage, improved lighting and redesigned galleys. Engines with 14,500 pounds of thrust and body configurations at weights of 173,000 pounds already are being offered as options to the standard 727-200.

For the 737, a new high performance thrust reverser has been developed. A cruise drag reduction package improves the twin-jet's aerodynamic efficiency. These are incorporated in 737s now being delivered and are available as retrofits for the twin-jets already in service.

A Boeing-owned model 737 has been fitted out with modified leading and trailing edge wing flaps,

nose wheel brakes and boundary-layer control equipment operated by the auxiliary power unit. This airplane will demonstrate the capability of the modified 737 to fly 300-mile route segments from short runways, carrying a full passenger load.

In another project, studies and scale model tests of a short take-off-and-landing jetliner were made. Using a model of an airplane resembling the 737, project engineers added retractable engines for increased thrust during take-offs from short runways and amassed 500 hours of wind tunnel test time, with encouraging results.

Boeing is actively engaged in efforts to eliminate constraints to air traffic growth, working both independently and within various industry organizations. A company organization is conducting analyses of forecasts, requirements for new facilities, air traffic control, system economies and possible new legislation.

The company is active in a working group including airline, airport operator and aircraft manufacturing executives, all seeking to improve the environment for air operations. In 1968, this group produced a document describing transport aircraft characteristics in standard form for the first time—an invaluable aid to airport planning. Boeing also assists the

aircraft manufacturing industry's support for the Department of Transportation's air traffic control advisory committee which is examining the airways and airport problems to establish requirements for 1980 and beyond.

Aircraft noise-reduction research, design and test activity for all Boeing jetliner types has been consolidated in a single product development organization with support from technology staffs. Fundamental research on noise generation and noise reduction continues, including research into the acoustic effects of engine inlet airflow disturbances, and the reduction of engine fan noise by means of cowl configuration and absorbent materials. Tests of full scale nacelles incorporating the most advanced sound absorbent materials are scheduled for this year.

Continuing its efforts to provide strong support for customer airline operations, the company inaugurated a new, consolidated Spares Support Center in the Seattle area. Through computerized inventory and communications control systems, special packaging machines and other innovations, the center now responds to urgent calls for parts by shipping the needed replacement on an average of less than 30 minutes after the order is received in the spares store.



FINANCIAL REVIEW

SALES (in millions)

	1968	1967
Commercial	\$2,267	\$1,702
Missile and Space	585	670
Military Aircraft	422	508
	<u>\$3,274</u>	<u>\$2,880</u>

With commercial jet transport sales \$565 million higher than in the prior year, total sales of more than \$3.2 billion in 1968 were at a record level. Included in the total is \$60 million relating to the supersonic transport program. Jet transport deliveries in 1968 included one hundred and sixty 727s, one hundred and eleven 707s, and one hundred and five 737s. In 1967, one hundred and fifty-five 727s, one hundred and eighteen 707-720s, and four 737s were delivered. None of the aircraft delivered in 1968 was under lease arrangements, as contrasted to fourteen 727s and one 707 in the prior year. Five of the 707-720s on lease at the end of 1967 were sold in 1968, and at year end, forty-one 727s and one 707 were under lease.

Although production schedules were met, 1968 deliveries were thirteen less (two 707s, nine 727s, and two 737s) than had been anticipated at the end of the third quarter. At that time, one 707 and six 727s scheduled for 1968 delivery remained unsold. The 707 was sold and delivered in the fourth quarter. Two of the 727s were sold but incorporation of customer-requested changes delayed delivery beyond the year end. Negotiations are in progress for sale of the remaining four 727s. Adverse weather at year end and customer-requested delays in delivery resulted in the remaining seven aircraft being delivered early in the first quarter of 1969.

Sales to the U.S. Government totalling \$1,007 million were approximately \$171 million lower than 1967. Minuteman sales of \$232 million were down \$106 million from the 1967 level. Continuing heavy responsibilities on the Apollo/Saturn program resulted in sales of \$273 million being approximately \$23 million higher than in 1967. Sales of \$43 million on SRAM, the supersonic short-range attack missile program, were approximately the same as for the prior year. Sea Knight and Chinook helicopter sales of \$352 million were down \$33 million and B-52 modification and maintenance sales of \$41 million continued to decline.

Based on current programs and production schedules, 1969 sales will be lower than in 1968. Schedules call for delivery of approximately sixty 707s, one hundred and ten 727s, one hundred and fifteen 737s and from five to ten 747s. The total—approximately two hundred and ninety—compares with three hundred and seventy-six in 1968. Deliveries of 707s, 727s and 737s will be substantially higher in the first six months than in the last half of the year.

New commercial orders received during 1968 included thirty-six 707s, seventy-three 727s, forty 737s and twenty 747s. The lower level of orders was attributable to many factors: airline profitability trends; slowing of traffic growth on some international routes; uncertainties concerning route awards. The magnitude of financing needed to meet existing and future equipment requirements also had an effect, as did completion of the initial round of 747 orders by major airlines; re-examinations of the optimum airplane fleet size in light of 747 and tri-engined air-bus commitments, and prospective offerings of new or improved models by manufacturers.

Sales to the United States Government in 1969 should be somewhat above those in 1968. Increased sales on the SRAM missile program and sales from potential new missile and space programs could more than offset the currently projected reduction of Minuteman and Apollo/Saturn sales.

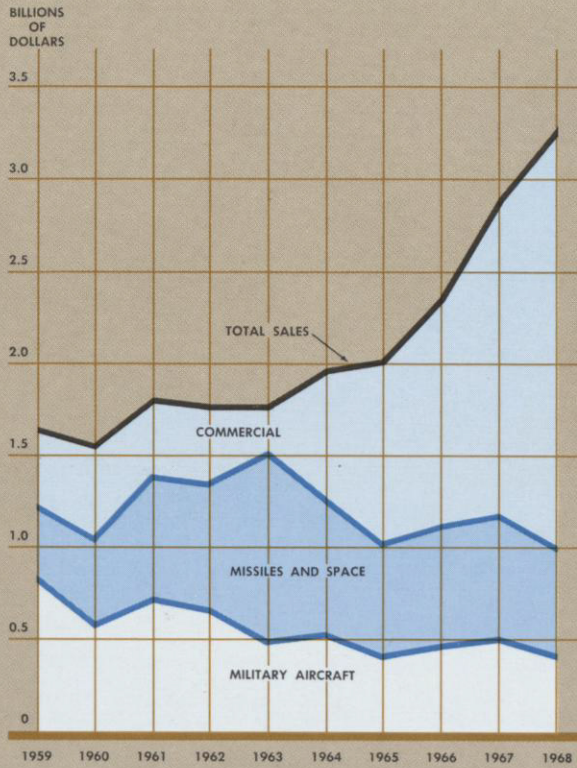
Although a reduction in Sea Knight and Chinook helicopter sales is scheduled, an increase in B-52 modification and maintenance sales should result in military aircraft sales in 1969 remaining at approximately the 1968 level.

EARNINGS

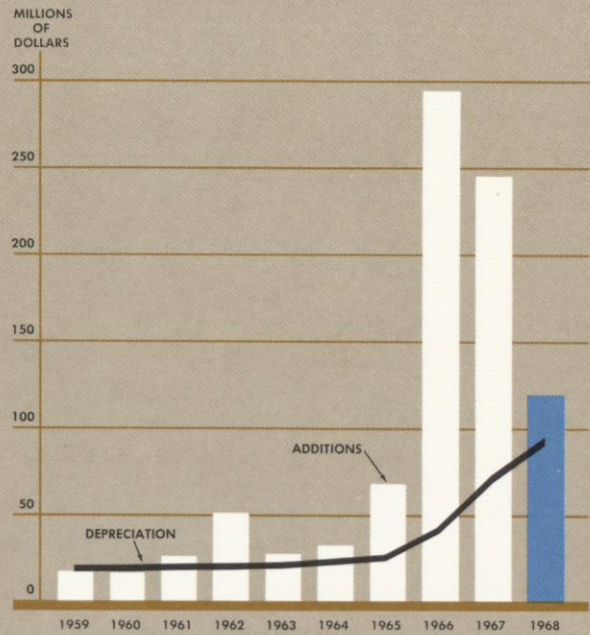
	1968	1967
Net earnings (in millions)	\$83.0	\$83.9
Profit margin	2.5%	2.9%
Earnings per share	\$ 3.84	\$ 4.10

Earnings in 1968, although the second highest in the company's history, were approximately \$1 million, or 1.2% below those reported in 1967. The proportionately larger reduction in per share earnings is attributable to the fact that average shares outstanding during 1968 were at a level above the average shares outstanding in 1967.

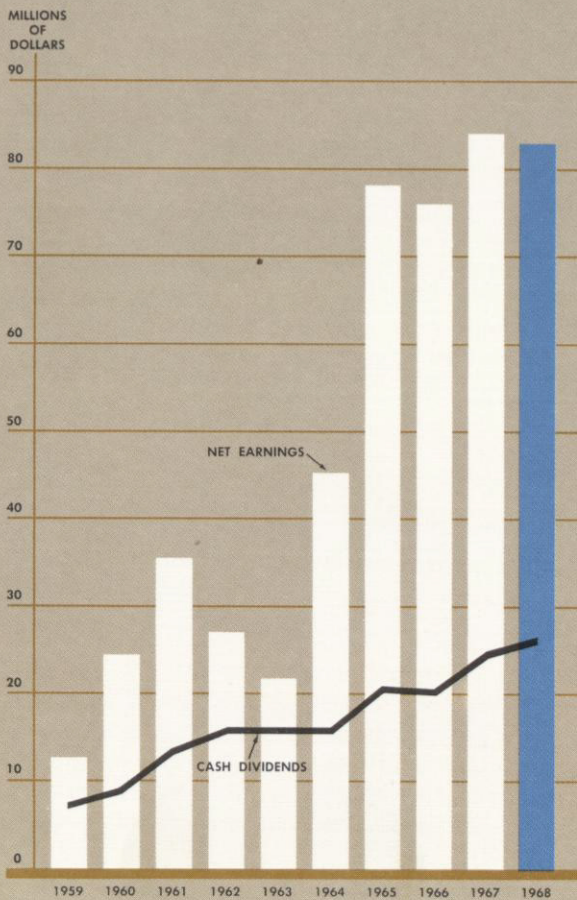
SALES BY PRODUCT LINE



PROPERTY, PLANT AND EQUIPMENT

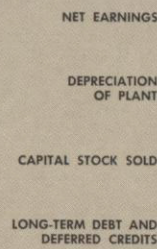


NET EARNINGS AND CASH DIVIDENDS

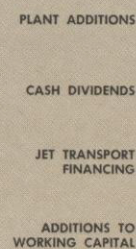


FUNDS STATEMENT 1959 - 1968

SOURCES OF FUNDS



USES OF FUNDS



MILLIONS OF DOLLARS

Favorably affecting earnings was the high level of 707 and 727 deliveries, combined with the continuation of the excellent cost performance trends experienced on those programs in 1967. However, earnings in the fourth quarter, and in turn the year, were lower than previously anticipated by reason of non-delivery of eleven 707s and 727s previously scheduled for 1968.

Although cost and schedule performance on all government programs, with the exception of SRAM, continued favorable, reduced sales volume and lower cost and performance incentive earnings resulted in earnings below those reported in 1967. State of the art technical problems and development delays in SRAM-related weapons systems impacted the SRAM research, design and test program during 1968, with the result that costs are exceeding original estimates. Although many of the technical problems were resolved during the year, there remain technical and contractual uncertainties that will not be resolved until later in 1969.

As reported earlier, the expenditure of substantial amounts in connection with an extensive product improvement program and higher than anticipated production costs on the 737 program resulted in charges against earnings being greater than previously anticipated.

Design, development and initial production activities on the 747 program continued at a high level during the year. Additional costs were incurred by reason of seeking certification at 710,000 pounds gross weight at a date earlier than had been originally anticipated and in connection with other product improvements, including a major weight reduction program. Further, in looking to the normal future growth of the 747, substantial effort was directed to advanced passenger and freighter versions such as the new longer range 747B.

The company charges against earnings on an incurred basis research, developmental and basic engineering and planning costs directly applicable to commercial jet transport programs. Administrative and general expenses incurred in support of commercial jet transport operations also are charged directly against earnings. The aggregate of charges in 1968 relating to the Model 747 and the Model 737 was significantly higher than in 1967.

While the practice referred to in the preceding paragraph is conservative, it recognizes the dynamic, volatile and high risk nature of the com-

mercial transport business—particularly as related to risks of cost overruns and other unanticipated costs in the initial years of a new program. If such practice had not been followed and the costs on the 747 and 737 which were charged against earnings had been included in inventory to be charged against earnings as aircraft are delivered, reported earnings in 1966, 1967 and 1968 would have been much larger. Earnings in 1968 also were affected adversely by the 10% Federal income tax surcharge.

The profitability of commercial jet transport programs, as reflected by reported annual earnings, is influenced by such factors as production rate and production cost trends, costs relating to model improvement programs and to the introduction of new models, and competitive conditions. These factors make forecasts of profitability from year to year most difficult. Such forecasts cannot be a straight extrapolation of previous trends but must take into consideration the effect on earnings of costs incurred and risks assumed in maintaining the company's competitive position in the free world jet aircraft market.

With current schedules calling for the delivery of fifty-one fewer 707s and fifty fewer 727s, earnings in 1969 will be below those of 1968. The earnings loss from the substantial decrease in 707-727 deliveries is greater than the projected reduction in charges against earnings relating to the newer jet transport programs. Earnings in the first six months will be higher than in the second half-year.

The extensive product improvement program undertaken on the 737, when combined with production costs in excess of estimates and projected production rates lower than previously contemplated, currently indicates that although no further significant charges against earnings relating directly to the 737 should be required, the program will not be making a meaningful contribution to reported earnings for several years.

With FAA certification, static, structural and system test programs scheduled for 1969 on the basic Model 747, and with basic engineering going forward on the 747B, charges against earnings will be substantial in 1969, but at a reduced level from 1968.

Current plans and schedules provide for the start of construction of the SST prototypes early in the year. It is expected that with the start of construction, the expenditure rate on the program (in which the company shares the cost) will increase over the 1968 level.

With over-all borrowings projected to increase substantially over the 1968 level, interest expense in 1969 will be correspondingly higher.

FINANCIAL POSITION

At year end, stockholders' investment in the company totaled \$810 million, working capital was at the \$467 million level, long-term debt aggregated \$470 million, and there were no short-term bank loans outstanding.

The company has agreements with 41 banks providing for credit lines of \$500 million. Such agreements include a \$200 million revolving credit, which provides for the extension of that amount of credit to the company through December 31, 1969, at which time the outstanding borrowings become a term loan payable over a three-year-period. The remaining \$300 million of bank credit is formalized under an agreement committing the banks to continue such line of credit for a 12-month period, with the provision that unless the company is otherwise notified, such commitment will, on a weekly basis, be extended for an additional 12-month period. At December 31, the company was utilizing fully the \$200 million revolving credit, which is classified as long-term debt, but had no borrowings outstanding under the second bank credit agreement.

With the aggregate of internally generated funds and reduced jet transport financing substantially exceeding the requirements for plant and equipment expenditures and payments on long-term debt, working capital at the end of 1968 was approximately \$109 million higher than the prior year-end level. Gross facilities additions of \$121 million offset by a depreciation allowance of \$94 million resulted in the company's net investment in property, plant and equipment increasing by \$27 million to \$628 million at year end. Jet transport financing, which includes long-term notes receivable from customer airlines and the depreciated book cost of leased aircraft, totaled \$298 million at year end, a decrease of \$65 million from 1967.

A summary of sources and uses of funds during the year follows:

Sources (in millions)

Net earnings	\$ 83.0
Depreciation of plant and equipment	93.8
Reduced jet transport financing	65.2
Deferred income taxes/investment credit	22.2
Other	1.0
	<u>\$265.2</u>

Uses (in millions)

Additions to plant and equipment	\$120.5
Increased working capital	108.7
Cash dividends paid	26.0
Reduction of long-term debt	10.0
	<u>\$265.2</u>

Looking to the future, established bank credit lines should be adequate to accomplish currently planned programs. The projected substantial increase in bank borrowings during 1969 will be in support of inventory requirements on the 747 program, which should peak early in 1970. Plant and equipment expenditures in 1969 are projected to be at or somewhat below 1968 levels. Major requirements relate to further expansion of the 747 production facility and facilities necessary for the prototype phase of the supersonic transport program. Requirements relating to jet transport financing should be further reduced with additional commitments necessary to support aircraft sales programs being below the levels experienced in recent years.

The company has a continuous program of disposing of certain notes receivable and lease contracts at the earliest date practicable.

BACKLOG (in millions)

	1968	1967
Commercial	\$4,464	\$5,144
Military aircraft	363	373
Missiles and space	349	376
	<u>\$5,176</u>	<u>\$5,893</u>

Backlog of unfilled commercial orders at the end of 1968 was approximately \$680 million lower than the previous year end and the government order backlog decreased by approximately \$37 million. Between January 1, 1969, and February 24, new orders for thirteen 747, five 707 and twenty-eight 727 models brought the company's total announced orders since the beginning of the commercial jetliner program above 2,000. Neither the above orders nor a number of unannounced orders in the same period are included in the 1968 backlog.

The government order backlog includes only the amounts obligated to contracts by the procuring agencies. If recognition were given to the unfunded amounts believed to be firmly established in the Department of Defense and NASA procurement plans, unfilled orders would be substantially increased.





The majestic 747 superliner is seen above on one of its earlier test flights over Puget Sound.

TEN YEAR COMPARATIVE FINANCIAL DATA

Dollars (other than per share amounts) in millions

SALES, EARNINGS AND DIVIDENDS

	SALES	EARNINGS BEFORE INCOME TAXES		NET EARNINGS			CASH DIVIDENDS	
		AMOUNT	% OF SALES	AMOUNT	% OF SALES	PER SHARE	AMOUNT	PER SHARE
1968	\$3,274	\$149.6	4.6	\$83.0	2.5	\$3.84	\$26.0	\$1.20
1967	2,880	144.4	5.0	83.9	2.9	4.10	24.6	1.20
1966	2,357	140.6	6.0	76.1	3.2	4.13	20.2	1.10
1965	2,023	149.6	7.4	78.3	3.9	4.78	20.3	1.25
1964	1,969	89.0	4.5	45.3	2.3	2.82	16.0	1.00
1963	1,771	44.9	2.5	21.7	1.2	1.35	16.0	1.00
1962	1,769	56.3	3.2	27.2	1.5	1.70	16.0	1.00
1961	1,801	73.9	4.1	35.7	2.0	2.23	13.5	.85
1960	1,555	51.8	3.3	24.5	1.6	1.53	9.1	.57
1959	1,649	26.4	1.6	12.7	0.8	.80	7.4	.46

FINANCIAL POSITION DATA

	WORKING CAPITAL	LONG- TERM NOTES	LEASED AIRCRAFT	PLANT AND EQUIPMENT		LONG-TERM DEBT AND DEFERRED CREDITS	STOCKHOLDERS' INVESTMENT	
				AT COST	NET		AMOUNT	PER SHARE
1968	\$467	\$208	\$ 90	\$1,032	\$628	\$587	\$810	\$37.43
1967	358	249	114	915	601	574	752	34.80
1966	434	124	86	672	426	513	564	28.91
1965	266	20	14	380	172	104	372	22.70
1964	255	1	29	315	130	113	306	19.06
1963	245	9	17	285	121	117	276	17.24
1962	197	13	10	261	115	66	270	16.89
1961	178	25	32	214	86	65	258	16.19
1960	199	17	8	189	81	71	236	14.81
1959	204	2	—	172	83	71	221	13.84

Notes: All per share data adjusted to reflect stock dividends and stock splits. Net earnings per share for 1966 and subsequent years based on the average number of shares outstanding during each year; prior years based on number of shares outstanding at end of respective years. Vertol Aircraft Corporation, acquired in 1960, included in data for 1959.

PRINCIPAL SOURCES AND USES OF FUNDS

SOURCES				USES				
NET EARNINGS	DEPRECIATION OF PLANT	CAPITAL STOCK SOLD	LONG-TERM DEBT AND DEFERRED CREDITS	CASH DIVIDENDS	ADDITIONS TO PLANT	INCREASED AIRCRAFT FINANCING	INCREASED WORKING CAPITAL	
\$83.0	\$93.8	\$ 1.8	\$ 12.2	\$26.0	\$120.5	(\$ 65.2)	\$108.7	1968
83.9	72.3	128.6	62.3	24.6	246.5	153.0	(76.0)	1967
76.1	40.2	135.9	408.4	20.2	294.6	176.2	167.5	1966
78.3	25.5	7.3	(8.7)	20.3	67.8	3.7	11.3	1965
45.3	24.7	0.8	(4.1)	16.0	33.6	4.5	9.6	1964
21.7	21.6	0.7	51.3	16.0	28.2	3.1	48.2	1963
27.2	21.0	0.3	1.0	16.0	50.1	(34.7)	19.0	1962
35.7	20.6	0.2	(5.9)	13.5	26.8	32.4	(20.7)	1961
24.5	19.4	—	—	9.1	17.4	22.3	(4.7)	1960
12.7	19.5	2.2	—	7.4	18.1	2.5	7.0	1959

GENERAL INFORMATION

SHARES OUTSTANDING	BACKLOG	FLOOR AREA (In Million Square Feet)			EMPLOYEES		
		BOEING OWNED	LEASED	GOV'T OWNED	AVERAGE NUMBER	SALARIES AND WAGES	
21,647,363	\$5,176	24.7	4.1	10.7	142,400	\$1,411	1968
21,597,356	5,893	22.9	4.3	10.7	142,700	1,305	1967
19,496,519	5,283	19.9	3.6	10.6	128,500	1,148	1966
16,374,280	3,148	12.5	2.5	11.4	93,400	813	1965
16,073,972	1,844	11.3	2.1	11.2	90,900	758	1964
16,025,136	1,815	11.1	2.0	11.2	100,400	803	1963
15,984,752	1,620	10.8	2.3	10.8	104,100	768	1962
15,964,860	1,869	7.2	1.9	11.8	89,800	629	1961
15,943,294	2,139	6.6	1.7	11.4	81,700	556	1960
15,941,280	2,018	6.4	1.8	11.7	92,300	579	1959

CONSOLIDATED

ASSETS

		<i>December 31,</i>	
		<i>1968</i>	<i>1967</i>
CURRENT ASSETS:			
Cash		\$ 58,352,000	\$ 64,042,000
Amounts receivable under United States Government contracts		99,648,000	140,288,000
Other accounts and notes receivable		61,101,000	64,124,000
Inventories – Note 1		1,024,145,000	784,042,000
Prepaid expenses		12,882,000	10,168,000
Total Current Assets		\$1,256,128,000	\$1,062,664,000
LONG-TERM NOTES RECEIVABLE		\$ 207,532,000	\$ 248,701,000
LEASED AIRCRAFT, at cost, less accumulated depreciation: 1968, \$54,983,000; 1967, \$52,098,000		\$ 90,329,000	\$ 114,350,000
OTHER ASSETS AND DEFERRED CHARGES		\$ 4,495,000	\$ 3,498,000
PROPERTY, PLANT AND EQUIPMENT, at cost:			
Land		\$ 26,445,000	\$ 26,367,000
Buildings		494,850,000	443,166,000
Machinery and equipment		483,389,000	391,586,000
Construction in progress		27,076,000	53,570,000
Less accumulated depreciation and amortization		(404,125,000)	(313,462,000)
		\$ 627,635,000	\$ 601,227,000
		\$2,186,119,000	\$2,030,440,000

BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' INVESTMENT

	December 31,	
	1968	1967
CURRENT LIABILITIES:		
Notes payable to banks	\$ —	\$ 51,000,000
Accounts payable	594,013,000	489,544,000
Salaries and wages, taxes, and other accrued expenses	171,155,000	146,225,000
Federal taxes on income – Note 2	9,269,000	5,698,000
Current portion of long-term debt	14,690,000	11,946,000
Total Current Liabilities	\$ 789,127,000	\$ 704,413,000
 DEFERRED TAXES ON INCOME – Note 2	 \$ 47,939,000	 \$ 47,123,000
 DEFERRED INVESTMENT CREDIT – Note 2	 \$ 68,200,000	 \$ 46,800,000
 LONG-TERM DEBT, less current portion – Note 3	 \$ 470,492,000	 \$ 480,512,000
 STOCKHOLDERS' INVESTMENT:		
Capital stock, par value \$5 a share – Authorized, 30,000,000 shares Issued and outstanding at stated value: 1968, 21,647,363 shares; 1967, 21,597,356 shares – Note 5	\$ 445,617,000	\$ 443,859,000
Retained earnings	364,744,000	307,733,000
	<u>\$ 810,361,000</u>	<u>\$ 751,592,000</u>
	<u><u>\$2,186,119,000</u></u>	<u><u>\$2,030,440,000</u></u>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF
NET EARNINGS AND RETAINED EARNINGS**

	<i>Year ended December 31,</i>	
	<i>1968</i>	<i>1967</i>
Sales	\$3,273,980,000	\$2,879,686,000
Other income	30,772,000	31,299,000
	<hr/>	<hr/>
	\$3,304,752,000	\$2,910,985,000
Costs and expenses – Notes 1 and 4	\$3,121,728,000	\$2,734,282,000
Interest and debt expense	33,452,000	32,265,000
Federal taxes on income – Note 2	66,600,000	60,500,000
	<hr/>	<hr/>
	\$3,221,780,000	\$2,827,047,000
NET EARNINGS	\$ 82,972,000	\$ 83,938,000
Retained earnings, January 1	307,733,000	248,444,000
Cash dividends paid, \$1.20 per share	(25,961,000)	(24,649,000)
	<hr/>	<hr/>
Retained earnings, December 31	<u><u>\$ 364,744,000</u></u>	<u><u>\$ 307,733,000</u></u>
Net earnings per share (based on the average number of shares outstanding during each year)	\$3.84	\$4.10

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—INVENTORIES:

Work in process on government fixed-price incentive type contracts is stated at the total of direct costs and overhead applicable thereto, less the estimated average cost of deliveries based on the estimated total cost of the contracts. Work in process on straight fixed-price contracts is stated in the same manner, except that applicable research, developmental, administrative, and other general expenses are charged directly to earnings as incurred. Basic engineering and planning costs applicable to commercial jet transport programs are also charged directly to earnings. At December 31, 1968, work in process aggregated \$2,122,796,000, less advances and progress payments of \$1,175,265,000.

To the extent that estimated program costs, determined in the above manner, are expected to exceed total sales price, charges are made to current earnings in order to reduce work in process to estimated realizable value.

Commercial spare parts and general stock materials, aggregating \$76,614,000, are stated at average cost, not in excess of realizable value.

Note 2—FEDERAL INCOME TAXES:

The provision for income taxes is composed of the following:

	Year ended December 31,	
	1968	1967
Taxes currently payable . . .	\$44,384,000	\$13,174,000
Deferred income taxes, principally related to installment sales of commercial aircraft . . .	816,000	23,126,000
Deferred investment credit (amounts taken into income—1968, \$12,600,000; 1967, \$8,800,000)	21,400,000	24,200,000
	<u>\$66,600,000</u>	<u>\$60,500,000</u>

Income taxes have been settled with the Internal Revenue Service for all years through 1966 except for certain pending refund claims which have not been recorded in the accounts. Adequate provision for income taxes is believed to have been made for the years 1967 and 1968.

Note 3—LONG-TERM DEBT:

	December 31,	
	1968	1967
Revolving Credit notes	\$200,000,000	\$200,000,000
6% % notes payable . . .	175,000,000	175,000,000
5% notes payable . . .	41,750,000	44,500,000
5% Sinking Fund Debentures	21,583,000	23,807,000
Other notes	46,849,000	49,151,000
Less current maturities (14,690,000)	(14,690,000)	(11,946,000)
	<u>\$470,492,000</u>	<u>\$480,512,000</u>

Under a Revolving Credit Agreement with a group of banks, the outstanding balance at December 31, 1969 is repayable over the three-year period ending December 31, 1972. These notes bear interest at the prime commercial bank rate until December 31, 1969 (currently 7%), and thereafter at $\frac{1}{4}$ % above such rate. Borrowings under the agreement may be prepaid at any time without penalty.

The 6% % notes, maturing in 1986, are payable to a group of institutional lenders. Required annual sinking

fund payments commencing in 1971 are \$10,750,000.

The 5% notes, maturing in 1983, are payable to an insurance company in annual installments of \$2,750,000.

Sinking fund requirements under the 5% Sinking Fund Debentures, due in 1978, are \$2,700,000 annually. Debentures aggregating \$2,217,000 have been reacquired and may be applied against future sinking fund requirements.

The other notes bear interest at 6% to 8%, and are payable in installments over various periods through 1977.

The company has complied with all of the restrictive covenants contained in the various debt agreements.

Note 4—OPERATING CHARGES:

The following charges were incurred in the years ended December 31:

	1968	1967
Depreciation and amortization of plant and equipment (principally sum-of-the-years-digits method)	\$93,836,000	\$72,315,000
Depreciation of leased aircraft (sum-of-the-years-digits method) . .	20,603,000	20,919,000
Retirement plan	38,529,000	35,611,000

The company has several retirement plans covering substantially all employees. The company's policy is to accrue current pension costs.

Note 5—CAPITAL STOCK:

Changes in capital stock during the year were as follows:

	Shares	Amount
Balance at Jan. 1, 1968 . .	21,597,356	\$443,859,000
Shares sold to officers and employees—		
Under stock option plan	33,946	617,000
Under incentive compensation plan	16,061	1,141,000
Balance at Dec. 31, 1968 . .	<u>21,647,363</u>	<u>\$445,617,000</u>

At December 31, 1968, options for 206,154 shares of the company's stock, at prices ranging from \$15.25 to \$71.00, were outstanding, of which 78,229 shares were exercisable. During 1968, 33,946 shares were issued upon exercise of options. Options for an additional 44,750 shares were granted and options for 1,500 shares were canceled. No further options may be granted under the present stock option plan.

Note 6—CONTINGENT LIABILITIES:

Substantially all of the company's contracts with the government are subject to renegotiation under the Renegotiation Act of 1951. Renegotiation Board proceedings for all years through 1964 have been concluded. The company does not know and cannot predict what the Board's action will be for 1965 and subsequent years. In view of this uncertainty, and the belief of the company that no excessive profits were realized, no provision for renegotiation refund has been made for these years.

The company is engaged in various legal proceedings which in some instances involve claims for substantial amounts. Most of these claims are covered by insurance, and the company does not anticipate that the amounts, if any, which may be required to be paid by the company will be material.

ACCOUNTANTS' REPORT

MILITARY

TOUCHE, ROSS, BAILEY & SMART

1212 IBM BUILDING
SEATTLE, WASHINGTON 98101

February 24, 1969

Board of Directors
The Boeing Company
Seattle, Washington

We have examined the accompanying consolidated balance sheet of The Boeing Company and subsidiaries as of December 31, 1968 and the related consolidated statement of net earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The Boeing Company and subsidiaries at December 31, 1968 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Also, in our opinion, the action of the Board of Directors on February 24, 1969, in setting aside the sum of \$2,300,000 for the year 1968 under the Incentive Compensation Plan for Officers and Employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Touche, Ross, Bailey & Smart

Certified Public Accountants

Boeing-built military products during 1968 demonstrated their performance and reliability in widely divergent fields. The B-52, first flown in 1954 and none less than seven years old, continued to set longevity records for military jet aircraft. In Southeast Asia, the big bombers, operating there since 1965, by the end of 1968 had completed 35,680 combat sorties, dropping 886,490 tons of bombs, far more than the total dropped by the Army Air Corps in the Pacific area during World War II. KC-135 aerial tankers in the same period had flown 79,640 sorties, delivering more than 600 million gallons of fuel in 330,000 aerial hookups with fighter and bomber aircraft. Meanwhile Boeing engineers were working on improvements to increase the B-52 capabilities and extend its usefulness.

More than 560 Chinook helicopters had been delivered to the U.S. Army by the year end, and the U.S. Marines had accepted more than 460 of the smaller Sea Knight models. The U.S. Navy was using 22 others in shipboard operations. The Chinooks in Viet Nam had amassed 361,000 flight hours, carrying 1,905,869 tons of cargo and 3,850,246 passengers and recovering 5,700 downed aircraft worth \$1.4 billion. Sea Knights had logged 143,000 combat hours and carried 1,000,000 passengers.

The first CH-47C, an advanced

PRODUCTS

Chinook with improved lifting ability, was undergoing tests, and F models of the Sea Knight were coming off the production lines. New orders for both helicopters have been received.

The company also was active in promoting new helicopters and related aircraft. Special studies of heavy lift helicopters and light intra-theater transports were made. Military interest in the latter centers on vertical-or-short take-off and landing vehicles, including tilt-wing aircraft.

Boeing and Messerschmitt-Boelkow, GmbH, of Germany, signed agreements under which Boeing will market the five-place BO-105 helicopter in the U.S. and some other parts of the world, with an option to produce the twin-engine, rigid rotor aircraft in the U.S. Boeing is purchasing two of the helicopters, one as a demonstrator, the other for extensive testing. Boeing has had a minority interest in the German firm since 1965 and monitored development of the BO-105.

Two advanced research and development facilities for testing future vertical-or-short take-off and landing aircraft were dedicated in September. The \$8 million low-speed wind tunnel gives the company capability accurately to predict and evaluate performance of advanced vertical lift aircraft such as heavy lift helicopters, as well as tilt-wing, tilt rotor and stowed rotor configurations. The 20-foot-



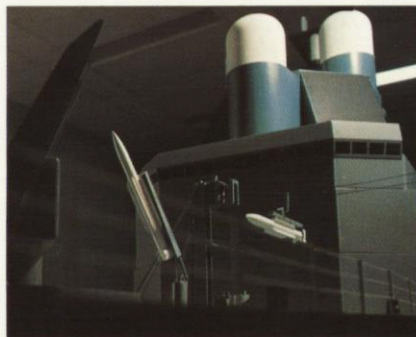
Boeing-built Army CH-47 helicopters have recovered more than 5,700 downed aircraft since their involvement in the Vietnam action.



Demonstrating their long life, B-52 Superfortress bombers, built more than 8 years ago, play a major role in Viet Nam.



SRAM program activity is moving from laboratory to field and flight test.



Company has entry in surface missile system competition.



Minuteman III is the newest in the line of Air Force strategic ICBMs.



Boeing's high-speed all-weather hydrofoils, TUCUMCARI and HIGHPOINT, are operational with United States Navy.

square test section is 45 feet long and can test aircraft at wind speeds to 260 knots. A \$5 million engineering laboratories installation provides advanced research and development facilities for vertical or short take-off aircraft.

The tenth anniversary of the Minuteman intercontinental ballistic missile program was passed in October. High point of the year was the successful flight of Minuteman III, newest and most versatile of this series of solid-fueled, quick response weapons. In the decade, the company has assisted in the development, test and deployment of Minuteman I and Minuteman II in 1,000 underground silos scattered through seven states. Currently most of the original version are being replaced by Minuteman II, with Minuteman III to be added later.

Construction of SRAM, the Air Force's new short range attack missile, encountered technical, schedule and cost problems during the year. Under the total package government contract the Air Force was given several options, some of which have lapsed.

The missile is designed to be carried by the FB-111 bomber as well as late model B-52s. All components of the missile were tested under controlled conditions during 1968 and equipment was moved into the field for the start of flight testing. Preliminary flight tests with B-52 and FB-111 aircraft have been conducted. Tests leading

to live launch will be continued in 1969.

The hydrofoil gunboat PGH-2 Tucumcari was delivered to the U.S. Navy in March. By the end of the year, the craft, first of its type in the Navy, had operated foil-borne for the equivalent of a roundtrip between San Francisco and Tokyo at speeds exceeding 40 knots.

The Tucumcari is Boeing's entry in a competition for a high speed, all weather naval craft. At the year's end, evaluation was continuing at San Diego on the Boeing entry and a competitive craft.

Boeing is a competitor on another Navy program: the Advanced Surface Missile System (ASMS). Three firms are involved, and the winner will carry out engineering development on the complex weapon system to be installed on guided missile ships. In addition to a new supersonic defensive missile, features of the system will be an advanced radar able to scan in any direction almost instantaneously, an illuminator radar for missile guidance, an extensive computer bank and a dual-purpose launcher able to fire anti-submarine rockets as well as ship-to-air missiles. In April of 1969, the competing companies will submit comprehensive proposals, and by late summer the Navy is expected to announce its choice of prime contractor.

For more than three years, Boeing has studied the Air Force requirement for an Airborne Warning and Control System (AWACS)

and at the year end was competing for the prime contract to produce this large aircraft, which would use extensive radar, communications systems, data processing displays and other electronics enabling it to serve as a flying command post.

Formation of a Military Airplane Systems Division was announced in December. The division, with headquarters in Seattle, has been chartered to identify potential new military systems involving airplanes, compete for such assignments and execute programs, using capabilities of other divisions as appropriate.

Currently the division is preparing for a design competition for the Air Force's Advanced Manned Strategic Aircraft (AMSA). AMSA is a weapon system with which the Air Force hopes to replace the B-52/B-58 fleet in the late 1970s. The airplane envisioned must penetrate enemy defenses supersonically at either high or low altitude. It also must be able to remain aloft for long periods on airborne alert status or to take off very quickly from a ground alert situation.

A government request for proposals, probable in the May-August period, is expected to result in awards early in 1970 to airframe manufacturers for a two-year design competition. This would be followed by a final decision on whether to develop the system.

INTERNATIONAL OPERATIONS



German-designed BO-105 five-place helicopter will be marketed by Boeing in United States.

The company is represented overseas by its wholly-owned subsidiary, Boeing International Corporation, with offices in Paris, London, Munich, Bad Godesberg, Rome and Tokyo. These offices are maintained to facilitate technical and business information interchange with foreign sources and the foreign activities of the company's operating divisions. In addition, the Commercial Airplane Division maintains sales offices in Geneva, Beirut and Sydney, and all divisions have service representatives wherever their products are in use throughout the world.

Following an extensive 1968 survey of foreign subcontract sources,

a selected group of companies participated in a bidding competition, and Boeing issued its first purchase orders to foreign sources for the production of structural sub-assemblies. This program has been undertaken to broaden the company's base of qualified competitive subcontractors.

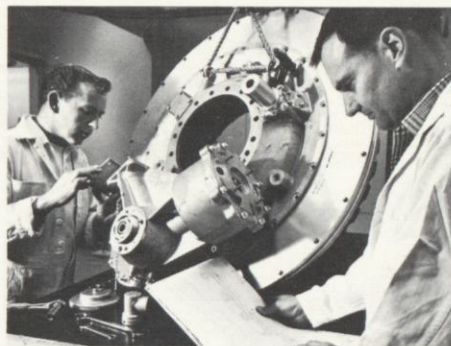
At the end of November, the company's one-third interest in Boelkow GmbH, of Munich, became a one-sixth interest in a merged Messerschmitt-Boelkow GmbH. Messerschmitt-Boelkow is now the largest aerospace company in Germany, employing approximately 12,500 people. It is active in the development and production

of space hardware, helicopters, tactical missiles, small airplanes and related equipment. Nord Aviation of France is also a one-sixth owner of Messerschmitt-Boelkow.

The company owns 60 percent of Advanced Marine Systems-Alinavi SpA, of Italy, which made progress during the year in adapting a Boeing hydrofoil gunboat design for possible use by the Italian navy.

The Kawasaki Aircraft Co., of Japan, produces the KV-107 helicopter under license from the Vertol Division; and Boeing of Canada, Ltd., maintains a small helicopter servicing facility at Arncliffe, Quebec.

BOEING PEOPLE



Average employment during 1968 varied little in numbers from the previous year. Company-wide the average was 142,400. There were, however, changes in the composition of the work force. As tooling was completed on major projects, there was a shift to greater requirement for production skills. The result was a steady skill interchange, accomplished by retraining, transfer and hiring.

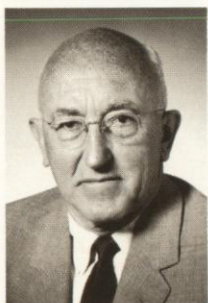
Long an equal opportunity employer, the company also gave strong support during the year to various programs designed to widen the base of employment and assist in leavening of urban problems. Summer jobs were provided for more than 400 disadvantaged youths. To cooperate with the National Alliance of Business Men, the company also established programs for hiring, training and bringing to full productivity 453 hard-core disadvantaged persons for whom permanent jobs were pledged in the Seattle, Houston and Morton, Pennsylvania, areas. In one training program involving 164 persons, only four were lost—

two on extended sick leave, one to the military, one dismissed.

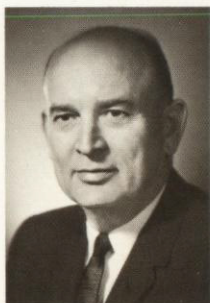
The company's labor force continued to gain in experience. By mid-year more than 3,600 persons had more than 25 years of service each, and 45 percent of the work force had been with the company at least five years. Three-year labor agreements were signed by the company both with the International Association of Machinists (IAM) and the United Auto Workers (UAW). These, plus agreements covering certain other groups, involve approximately 60,000 hourly employees.

Employee participation in product improvement and cost reduction programs during the year was exceptional. Weight reduction campaigns both for the huge 747 and the twin-engined 737 proved successful. In the Zero Defects program, directed toward avoiding production errors, employees received the Air Force Craftsmanship Award, highest given to industrial organizations for on-the-job performance. In a "Pride in Excellence" program, 641 individuals and 449 groups comprised of 19,153 employees earned performance awards.

In 1959, the company established a public affairs organization. Among its functions is a continuing effort to interest employees in their responsibilities in political and governmental affairs. More than 6,000 employees have graduated from periodic off-hour courses in practical politics in the Seattle area alone.



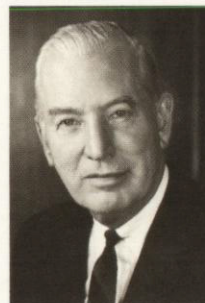
WILLIAM M. ALLEN



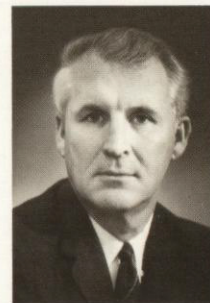
WILLIAM M. BATTEN



W. L. CAMPBELL



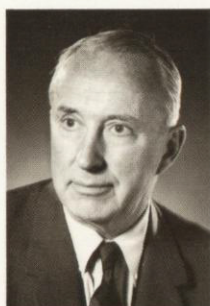
CRAWFORD H. GREENEWALT



H. W. HAYNES



T. A. WILSON



LOWELL P. MICKELWAIT



J. E. PRINCE



WILLIAM G. REED



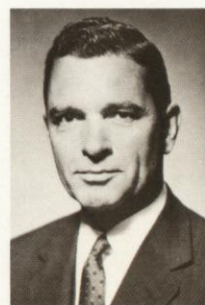
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Twin-engined 737 jetliner, in both executive and airline Configuration, was demonstrated on series of tours through the United States, Canada and Latin America.

The Boeing Company is composed of an administrative headquarters organization and seven operating divisions, three of which are incorporated in an Aerospace Group. Corporate headquarters and the newly formed Military Aircraft Systems Division are at Seattle, Washington.

The Aerospace Group, its Missile and Aerospace Systems divisions, plus Spacecraft, Aerospace Operations, Marine and Advanced Surface Missile Systems group branches, are headquartered at Kent, Washington. The Southeast Division, third member of the group, has headquarters in Houston, Texas, and operations at New Orleans, Cape Kennedy and Huntsville, Alabama.

The Commercial Airplane Division headquarters and its Renton Branch are at Renton, Washington. Other branches are the Seattle, Everett, Auburn and Supersonic Transport, all in Washington state.

The Wichita Division is at Wichita, Kansas, and the Vertol Division near Philadelphia.

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